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DIRECTOR'S OFFICE
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DEPARTMENT OF HEALTH & HUMAN SERVICES
CENTERS FOR MEDICARE & MEDICAID SERVICES
REGION IX

NOV 14 2001

75 Hawthorne Street
Suite 408
San Francisco, CA 94105

Phyllis Biedess, Director
Arizona Health Care Cost Containment System
801 E. Jefferson
Phoenix, AZ 85034

Dear Ms. Biedess:

Enclosed is an approved copy of Arizona State plan amendment (SPA) 01-002, which implements section 702 of the Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA).

Even though this SPA implements the provisions of section 702 of BIPA, it does not describe, in detail, the Prospective Payment System (PPS) methodology that Arizona will use. The description of this methodology must be submitted to CMS by January of 2002, in accordance with the timeline specified in your letter to me dated August 24, 2001. In addition to the information contained in SPA 01-002, the SPA that describes the PPS methodology must include four items:

1. The averaging methodology you will use to calculate the fiscal year (FY) 1999/2000 PPS baseline rate. The calculation of the baseline rate must include costs of all Medicaid coverable services (including ambulatory services that were previously paid under a fee-for-service basis) provided in the centers/clinics.
2. For FY 2002 and beyond, the SPA must indicate that the PPS reimbursement rate will be increased by the Medicare Economic Index (MEI), adjusted to take into account any increase or decrease in the scope of services furnished by the center/clinic during the FY. The SPA should also indicate how adjustments will be recognized and when adjustments will be applied.
3. The definition of the FY (Federal, state, or center/clinic) used in your computations. The application of a FY should be consistent throughout the plan; for example, the same FY should be used for the PPS baseline rate and for the MEI/other adjustments and increases. If the FY is not consistent throughout the plan, then this should be indicated in the SPA.
4. For centers and/or clinics that become FQHCs or RHCs after FY 2000, the SPA must describe the methodology that the State will use to calculate the initial year payment to such centers and/or clinics. If the initial-year payment methodology will pay a new FQHC/RHC an initial-year payment based on a payment to an established FQHC/RHC (in the same or an adjacent area), then the initial-year methodology must demonstrate that the established FQHC/RHC has a same or similar caseload to the new center/clinic.

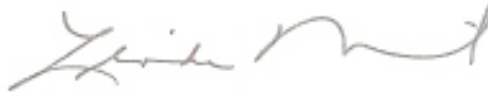
*Phyllis Branch
Original Jyner*

For these new FQHCs/RHCs the subsequent year rate calculation must also be described in the SPA. Since Arizona is choosing to implement a PPS, the subsequent year rate calculation would be increased by the MEL. This calculation must also take into account adjustments (increases and/or decreases) to the scope of services offered by the FQHC/RHC.

If Arizona has not provided a public notice of the new payment methodology, it should do so before the end of this calendar year. CMS had previously indicated that a public notice was not required, but upon further review, the Office of General Counsel has advised that a public notice is necessary.

I am approving this SPA with the requested effective date of January 1, 2001. If you have any questions, please have your staff contact Ronald Reepen at (415) 744-3601.

Sincerely,

A handwritten signature in dark ink, appearing to read "Linda Minamoto", with a stylized, flowing script.

Linda Minamoto
Associate Regional Administrator
Division of Medicaid

cc: Joan Peterson, CMS, CMSO, FCHPG
Elliot Weisman, CMS, CMSO, PCPG (two copies)

State: ARIZONA

METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES
OTHER TYPES OF CARE

• Federally Qualified Health Centers (FQHCs)/Rural Health Clinics (RHCs)

AHCCCS will utilize the following interim payment methodology from January 1, 2001, until January 1, 2002. This methodology will involve three parts.

- 1) Effective January 1, 2001, there will be an adjusted quarterly payment per member per month (PMPM) to all FQHCs and RHCs in Arizona. The amount of the payment is \$1.75 PMPM statewide for each FQHC and RHC. This capitation payment is a supplemental payment provided by AHCCCS for all members who are assigned to FQHCs/RHCs for primary care services. The AHCCCS Office of Managed Care (OMC) will collect the FQHC/RHC member month information from the health plans on a calendar quarter basis and review the information for reasonableness based on historic FQHC/RHC enrollment. Reports from the health plans to AHCCCS will be due 60 days after the end of the quarter. A check will be generated by AHCCCS for each FQHC/RHC that includes the FQHC's/RHC's calculation of the supplemental payment which is the total member months reported for the FQHC/RHC multiplied by the applicable supplemental payment per member per month. AHCCCS will make every effort to provide the payments to the FQHCs/RHCs approximately one month after the reports are due from the health plans.
- 2) Second, AHCCCS will establish a baseline Prospective Payment System effective January 1, 2001 through December 31, 2001. The calculation will conform to section 1902(a)(15)(c) of the Social Security Act. The PPS will be established by collecting allowable costs from each FQHC/RHC for fiscal years 1999 and 2000. These total costs will be divided by the number of visits for these two years.
- 3) Third, after the baseline is established, and after December 31, 2001, a full reconciliation between the amount determined as reasonable costs by the PPS baseline less the reimbursement to the FQHC/RHCs will be compared to the total supplemental reimbursement provided by AHCCCS supplemental payments (\$1.75). The following demonstrates the calculation to be used in the reconciliation:

	PPS baseline costs - AHCCCS contractors' reimbursement for 2001
Less	<u>Total AHCCCS supplemental payments for 2001</u>
Equals	Amount to be paid or (recouped) for 2001

This reconciliation will be performed for each FQHC/RHC. All FQHC/RHCs have agreed to this reimbursement methodology.

- ☐ The payment methodology for FQHCs/RHCs will conform to section 702 of the BIPA 2000 legislation.
- ☒ The payment methodology for FQHCs/RHCs will conform to the BIPA 2000 requirements Prospective Payment System.
- ☐ The payment methodology for FQHCs/RHCs will conform to the BIPA 2000 requirements for an alternative payment methodology.

State: ARIZONA

METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES
OTHER TYPES OF CARE

The FQHCs/RHCs have met with AHCCCS and agreed that \$1.75 PMPM would result in payment that will at least equal the PPS payment. AHCCCS and the FQHCs/RHCs have agreed to supplement payments to the FQHCs/RHCs payments once the PPS baseline is established, if necessary.

TN No. 01-002
Supersedes
TN No. 00-016

Approval Date NOV 14 2001

Effective Date January 1, 2001